



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 9, 2002

H.R. 3991 **Taxpayer Protection and IRS Accountability Act of 2002**

*As ordered reported by the House Ways and Means Committee
on March 20, 2002*

SUMMARY

H.R. 3991 would make several changes to laws currently affecting tax administration. The bill would waive or eliminate certain penalties for taxpayers who make certain errors on their tax returns, and would exclude from gross income the interest earned on overpayments of income by individual taxpayers.

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 3991 would increase revenues by \$27 million in 2002 and by \$157 million over the 2002-2007 period, but would decrease revenue by \$1.2 billion over the 2002-2012 period. CBO estimates that the bill would increase direct spending by \$28 million over the 2002-2007 period, and by \$58 million over the 2002-2012 period. Since the bill would affect direct spending and receipts, pay-as-you-go procedures would apply.

CBO has determined that certain provisions of titles V and VII which would require the Treasury Department to prepare a number of reports and authorize the Financial Management Service to retain certain collections contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, and tribal governments. JCT has determined that the remaining provisions of the bill contain no intergovernmental mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3991 is shown in the following table. The costs of this legislation would fall within budget function 800 (general government).

| | By Fiscal Year, in Million of Dollars | | | | | |
|--|---------------------------------------|-----------|-----------|-----------|------------|------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| CHANGES IN REVENUES^a | | | | | | |
| Failure to pay estimated tax | 0 | 0 | -72 | -74 | -76 | -78 |
| Exclusion from income for interest on overpayments | 0 | 963 | -96 | -99 | -103 | -106 |
| Waiver of certain penalties | 0 | -44 | -46 | -47 | -49 | -50 |
| Other Provisions | <u>27</u> | <u>95</u> | <u>51</u> | <u>-9</u> | <u>-14</u> | <u>-16</u> |
| Total change in revenues | 27 | 1,014 | -163 | -229 | -242 | -250 |
| CHANGES IN DIRECT SPENDING | | | | | | |
| Financial Management Service | | | | | | |
| Estimated Outlays | 2 | 5 | 5 | 5 | 5 | 6 |
| SPENDING SUBJECT TO APPROPRIATION | | | | | | |
| Spending Under Current Law for Low-Income Taxpayer Clinics | | | | | | |
| Authorization Level ^b | 7 | 6 | 6 | 6 | 6 | 6 |
| Estimated Outlays | 7 | 6 | 6 | 6 | 6 | 6 |
| Proposed Changes | | | | | | |
| Authorization Level | 2 | 6 | 9 | 9 | 9 | 9 |
| Estimated Outlays | 1 | 6 | 9 | 9 | 9 | 9 |
| Low-Income Taxpayer Clinics Under H.R. 3991 | | | | | | |
| Authorization Level | 9 | 12 | 15 | 15 | 15 | 15 |
| Estimated Outlays | 8 | 12 | 15 | 15 | 15 | 15 |

a. Estimates provided by Joint Committee on Taxation.

b. The 2002 level is the amount appropriated that year for low-income taxpayer clinics.

BASIS OF THE ESTIMATE

Revenues

The estimates of the revenue provisions of the bill were provided by JCT. Three provisions would compose the majority of the effects on revenues. The provisions that would alter penalties for taxpayers who fail to pay estimated tax liability, exclude gross income interest that is paid to taxpayers who make payments above their tax liability, and permit the IRS to

waive penalties for taxpayers who make unintentional minor errors while filing tax returns or paying taxes would increase revenues by \$157 million over the 2002-2007 period, and reduce revenues by \$1.2 billion over the 2002-2012 period.

Direct Spending

Title V of H.R. 3991 would allow the Financial Management Service (FMS) to retain a portion of amounts levied under the Federal Payment Levy Program that FMS administers for the Internal Revenue Service (IRS). The levy program allows the IRS to collect a portion of certain payments disbursed by FMS to delinquent taxpayers. Under current law, IRS pays FMS' administrative costs for this program from its annual appropriation. H.R. 3991 would allow FMS to retain a portion of the funds it collects to cover its costs. CBO estimates that this provision would increase direct spending by \$28 million over the 2002-2007 period.

Spending Subject to Appropriation

Under current law, the Secretary of Treasury is authorized to provide up to \$6 million per year in grants to low income taxpayer clinics. H.R. 3991 would increase this authorization to \$9 million in 2003, \$12 million in 2004, and \$15 million for each year thereafter. CBO estimates that implementing these provisions would cost \$43 million over the 2002-2007 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes to government receipts that are subject to pay-as-you-go procedures are shown on the following table. For purposes of enforcing pay-as-you-go procedures, only the effects through 2006 are counted.

| | By Fiscal Year, in Million of Dollars | | | | | | | | | | |
|---------------------|---------------------------------------|-------|------|------|------|------|------|------|------|------|------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Changes in receipts | 27 | 1,014 | -163 | -229 | -242 | -250 | -257 | -266 | -278 | -283 | -295 |
| Changes in outlays | 2 | 5 | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 | 6 |

INTERGOVERNMENTAL AND PRIVATE SECTOR IMPACT

CBO has determined that certain provisions of titles V and VII which would require the Treasury Department to prepare a number of reports and authorize the Financial Management Service to retain certain collections contain no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, and tribal governments. JCT has determined that the remaining provisions of the bill contain no intergovernmental mandates as defined in UMRA.

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